Docket #0847 Date Filed: 4/19/2013

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	Chapter 11
SCHOOL SPECIALTY, INC., *et al.*,[1]	Case No. 13-10125 (KJC)
Debtors.	(Jointly Administered)
	Hearing: April 22, 2013 at 10:00 a.m.
	Re: Docket Nos. 599, 600, 601, 838 & 839

OBJECTION AND RESERVATION OF RIGHTS OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS TO THE REVISED PROPOSED ORDER APPROVING DISCLOSURE STATEMENT AND RELATED PROCEDURES AND TO THE DISCLOSURE STATEMENT FOR DEBTORS' AMENDED JOINT PLAN OF REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

The Official Committee of Unsecured Creditors (the "Committee") of School Specialty, Inc. and its affiliated debtors and debtors-in-possession in the above-captioned Chapter 11 cases (collectively, the "Debtors"), by and through its co-counsel, Brown Rudnick LLP and Venable LLP, hereby submits this Objection and Reservation of Rights (the "Objection") to the Notice of Filing of Revised Proposed Order Approving Disclosure Statement and Solicitation and Related Procedures, dated April 19, 2013 [DI: 839] and the Disclosure Statement (the "Disclosure Statement") for Debtors' Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Plan") (each as amended). In support of its Objection, the Committee states as follows:

[1] The Debtors in these Chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: School Specialty, Inc. (1239); Bird-In-Hand Woodworks, Inc. (8811); Califone International, Inc. (3578); Childcraft Education Corp. (9818); ClassroomDirect.com, LLC (2425); Delta Education, LLC (8764); Frey Scientific, Inc. (3771); Premier Agendas, Inc. (1380); Sax Arts & Crafts, Inc. (6436); and Sportime, LLC (6939).

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1. The Committee regrets having to file this Objection on the eve of the hearing to approve the Debtors' Disclosure Statement. Circumstances, however, require the Committee to do so for reasons that include the fact that the Debtors did not file their most recent versions of the Plan and Disclosure Statement until this morning. Through late last night, and even into today (after the Debtors' filing), the Committee has been engaged in arms'-length, good-faith negotiations with the Ad Hoc DIP Lenders[2] and the Debtors with a goal of reaching a consensual deal amongst all parties. While the parties came close, the Committee was not willing to accept certain deal terms that it believes were added at the eleventh hour after the parties had reached agreement on the principal economic terms. Thus, much to the Committee's chagrin, the Blackline Versions of the Plan and Disclosure Statement, dated April 19, 2012 [DI: 838] (the "Blacklines"), appear to reflect terms entirely dictated by the Ad Hoc DIP Lenders and represent a material departure from the terms under discussion prior to the final impasse. Also to the Committee's chagrin, it appears that the Ad Hoc DIP Lenders have picked up the mantle of the Debtors' original pre-petition secured lender, Bayside Finance, LLC ("Bayside"), and the Committee is once again left to battle lenders bent on stealing the value all to themselves.

2. Notwithstanding what appears to be impasse right now, the Committee will continue its good-faith efforts to reach an agreement that affords appropriate treatment to the Debtors' unsecured creditors. The Committee is hopeful that these issues can be resolved, as the Debtors understand that the unsecured creditors are essential to a successful reorganization. In the meantime, however, the Committee does not support the Plan and intends to recommend that all of the Debtors' unsecured creditors vote to reject the Plan.

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[2] Terms utilized but not defined herein shall have the meanings ascribed to them in the Plan and Disclosure Statement.

3. Throughout this case, the Committee has maintained that there is substantial value for the unsecured creditors. The Debtors' unsecured creditors are responsible for a material portion of that value since it is the Debtors' vendors and suppliers, with whom the Debtors seek to continue to do business (the "Trade Creditors"), that provide the product and the trade credit which the Debtors so desperately need. The Debtors and the Ad Hoc DIP Lenders have acknowledged the essential nature of the Trade Creditors to the rehabilitation of their businesses, however, the Blacklines of the Plan and Disclosure Statement do not reflect consideration for that value, nor do the recoveries afforded to general unsecured creditors (both Trade Creditors and other general unsecured creditors) reflect the intrinsic value of the Debtors. The Committee will not consent to such unfair treatment.

4. Beyond the problematic treatment of the claims of the unsecured creditors, and based only on a preliminary and admittedly not fulsome (due to the obvious time constraints) review, the Disclosure Statement also fails to provide parties-in-interest with "adequate information" on which to base an informed voting decision. See 11 U.S.C. § 1125 (requiring a disclosure statement to provide "information of a kind, and in sufficient detail, as is reasonably practicable . . . that would enable . . . a hypothetical investor of the relevant class to make an informed judgment about the plan . . .").

5. The Committee submits that the Disclosure Statement fails to meet this requirement on a number of grounds, and that the Debtors do not provide "adequate information" for purposes of accurately explaining, among other things: (a) the treatment of (i) the creditors in Class 5A who opt for a Convenience Election, (ii) the creditors in Class 5A who make no election at all, and (iii) the holders of the Noteholder Unsecured Claims in Class 5B, and how such treatment avoids an unfair discrimination challenge – and how said recoveries reflect a fair

allocation of the value as determined by the Debtors (the Committee does not agree with the Debtors' valuation); (b) the details and mechanics of the Trade Election Process in order to qualify a creditor for Trade Payments; and (c) which creditors qualify as Trade Creditors. The Committee maintains that the Disclosure Statement cannot be approved if it lacks such critical information. The Disclosure Statement suggests that the Committee was involved in negotiating the mechanics of the Trade Election. While that is true in part, the Disclosure Statement must be clear that the mechanics have not been agreed upon by the Committee and, more importantly, the Committee is vehemently opposed to the recoveries proposed for all unsecured creditors.

6. If this Court approves the Disclosure Statement over this Objection, the Committee respectfully requests that it be permitted to include in the Debtors' Solicitation Materials a written communication from the Committee to creditors urging creditors to reject the Plan. The Committee believes that written communication to creditors is the most efficient and transparent way to present the Committee's views on the Plan, especially under such a compressed time frame. If the Committee is not allowed to include such a letter in the Solicitation Materials, it will be forced to communicate with its constituents in any other manner that it can, including conducting "town hall" meetings for unsecured creditors in Wisconsin and elsewhere, where the Debtors and a majority of their trade creditors are based. The Committee is committed to communicating its message to its constituents by whatever legal means available to it.

7. In any event, the Court should delay consideration of the Disclosure Statement because the Debtors failed to provide parties-in-interest with a reasonable period of time to evaluate the late filed Blacklines of the Plan and Disclosure Statement. The Blacklines

contained substantial and material changes, and the Committee was not given sufficient time to review or comment before or since they were filed on the docket.

8. The Committee continues to analyze the Blacklines of Plan and Disclosure Statement, which were only filed today. As such, this Objection is submitted without prejudice to, and with full reservation of, the Committee's rights to supplement this Objection in advance of, or in connection with, the hearing to consider the Disclosure Statement. In addition, the Committee reserves the right to object to confirmation of the Plan or any other plan on any grounds whatsoever, regardless of whether those grounds are addressed herein.

9. Based on the foregoing, the Committee respectfully requests that this Court (a) sustain this Objection, (b) deny the approval the Disclosure Statement, and (c) grant to the Committee such other and further relief as this Court deems appropriate.

Dated: April 19, 2013
Wilmington, Delaware

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